

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 XMB-04 OPIC-06
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P 170142Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6164
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

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E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 9-15

1. SUMMARY: YEN SETS NEW HIGHS. FURTHER EMERGENCY
IMPORTS PUSHED. DISCOUNT RATE CUT OF .75 PERCENTAGE
POINTS WIDELY RUMORED TO BE IMMINENT. TIGHTENED CONTROLS
ON CAPITAL INFLOWS SEEN AS MORE LIKELY AS FOREIGNERS
CONTINUE TO SNAP UP JAPANESE BONDS. EXPORTS STRONG AND
IMPORTS FLAT IN FEB. ECONOMIC PLANNING AGENCY (EPA)
MONTHLY REPORT CITES SIGNS OF INVESTMENT PICKUP AS
HARBINGER OF BETTER ECONOMIC PERFORMANCE. BANK OF JAPAN
(BOJ) VIEWS SAME SIGNS SOMEWHAT MORE GUARDEDLY. NEW
MACHINERY ORDERS UP STRONGLY IN JAN. EIDAI COLLAPSE KEEPS
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LIABILITIES OF BANKRUPTCIES HIGH IN FEB. WHOLESALE PRICES
RISE A TINY 0.1 PERCENT. ANNUAL GNP FIGURES FOR CY 77
SHOW 30 PERCENT OF LAST YEAR'S 5.1 PERCENT GROWTH
ATTRIBUTABLE TO GROWTH IN NET EXPORTS, CONCENTRATED LARGE-
LY IN THE FIRST QUARTER. END SUMMARY.

2. AFTER A WEEK OF TURBULENT ACTIVITY, THE YEN ADVANCED

TO A NEW POSTWAR HIGH OF 233.00 ON TUES MAR 14, FOLLOWING ANNOUNCEMENT OF THE US/GERMAN AGREEMENT ON THE FOREIGN EXCHANGE MARKETS AND RELEASE OF FEB TRADE STATISTICS FORESHADOWING AN EXPANDED CURRENT ACCOUNT SURPLUS FOR THE MONTH. EARLIER ON WED, MAR 8, STRONG UPWARD PRESSURE ON THE YEN DEVELOPED, WITH THE BOJ PURCHASING \$300 MIL (PRESS ESTIMATE) IN TOKYO TO KEEP THE YEN AT 235.00. THE BOJ REPORTEDLY ALSO ASKED NY FED TO INTERVENE ON ITS ACCOUNT IN THE NEW YORK MARKET. THE FOLLOWING DAY, MARCH 9, THE YEN SPURTED TO 233.60 DESPITE BOJ INTERVENTION IN TOKYO ESTIMATED AT \$225 MIL. AFTER A RESPITE ON FRI MAR 10, THE YEN RETREATED SHARPLY LATE MONDAY MARCH 13 ON RUMORS THE PENDING US/GERMAN AGREEMENT WOULD INVOLVE COMPREHENSIVE INTERNATIONAL SUPPORT FOR THE DOLLAR. WITH EXPECTATIONS INFLATED, MARKET PARTICIPANTS REACTED WITH DISAPPOINTMENT TO THE ANNOUNCED MEASURES AND THE DOLLAR WAS MARKED DOWN TO 233.00 ON TUES MARCH 14. THE BOJ REPORTEDLY REFRAINED FROM INTERVENING UNTIL LATE IN THE DAY WHEN THE YEN BEGAN TO STRENGTHEN FURTHER ON RELEASE OF TRADE FIGURES INDICATING A WIDENED FEB TRADE SURPLUS. LATE AFTERNOON PURCHASES REPORTEDLY CAME TO \$100 MIL.

3. THE RENEWED SURGE IN THE YEN SET OFF A FLURRY OF OFFICIAL ACTIVITY TO COPE WITH THE SITUATION. AS REPORTED TOKYO 03911 ABD 04008, EMERGENCY IMPORT PROGRAMS ARE TO BE EXPANDED AND ACCELERATED. IN ADDITION, PRESS REPORTS UNCLASSIFIED

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INDICATE THAT A DISCOUNT RATE CUT IS ALL BUT SETTLED. NEW RESTRICTIONS ON CAPITAL INFLOWS ARE RUMORED TO HAVE WON RELUCTANT SUPPORT FROM THE MINISTRY OF FINANCE AND MAY BE INTRODUCED IF PRESSURES ON THE YEN CONTINUE. THE DISCOUNT RATE CUT DECISION HAS REPORTEDLY PROGRESSED TO THE POINT THAT AN ANNOUNCEMENT MAY BE MADE TODAY MARCH 15. A BOJ POLICY BOARD MEETING SCHEDULED FOR THIS AFTERNOON IS EXPECTED TO DECIDE ON A .75 PERCENTAGE POINT CUT, TO 3.5 PERCENT.

4. MEASURES UNDER CONSIDERATION TO INHIBIT CAPITAL INFLOWS ARE REPORTED TO INCLUDE BANNING THE PURCHASE BY NON-RESIDENTS OF BONDS WITH LESS THAN FOUR YEARS REMAINING UNTIL MATURITY AND INCREASING THE MARGINAL RESERVE REQUIREMENT ON FREE YEN DEPOSITS FROM 50 TO 100 PERCENT. PRESS ACCOUNTS SAY INSTITUTION OF FURTHER RESTRICTIONS ON CAPITAL FLOWS HAS BEEN CONTROVERSIAL WITHIN THE GOJ, WITH THE MOF PROTESTING THAT THE CONTROLS IMPOSED LAST NOV 18 HAD BEEN INEFFECTIVE AND THAT TIGHTER CONTROLS WOULD RUN COUNTER TO THE OFFICIAL POLICY OF LIBERALIZING EXCHANGE AND CAPITAL CONTROLS. HOWEVER, THE LATEST SURGE IN THE YEN HAS WEAKENED OPPOSITION AND SOME MEASURES ARE NOW

MORE WIDELY ANTICIPATED, PERHAPS PACKAGED WITH THE
DISCOUNT RATE CUT FOR MAXIMUM IMPACT.

5. FOREIGN PURCHASES OF JAPANESE BONDS ACCELERATED RAPID-
LY IN FEB. NIHON KEIZAI DATED MARCH 11 REPORTED THAT
NET FOREIGN PURCHASES OF JAPANESE BONDS EXCEEDED \$1 BIL IN
FEB, BRINGING SUCH FOREIGN BOND PURCHASES DURING THE FIRST
TWO MONTHS OF 1978 TO \$2 BIL. CENTRAL BANKS AND GOVTS IN
SOUTHEAST ASIA AND THE MIDDLE EAST HAVE REPORTEDLY BEEN
EXPANDING THEIR INVESTMENTS IN JAPANESE BONDS RAPIDLY
SINCE THE BEGINNING OF THE YEAR. INSTITUTIONAL INVESTORS

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TO SECSTATE WASHDC PRIORITY 6165
TREASURY DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
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IN THE U.S. AND EUROPE AS WELL AS OVERSEAS SUBSIDIARIES
OF JAPANESE ENTERPRISES ARE ALSO SAID TO BE BUYING
JAPANESE BONDS HEAVILY. ONE OF THE CHARACTERISTICS OF
RECENT FOREIGN PURCHASES OF JAPANESE BONDS IS A SHIFT
FROM SHORT-TERM BONDS (LESS THAN ONE-YEAR RESIDUAL
MATURITY) TO LONGER MATURITY BONDS. BULLISH FOREIGN
BUYING OF JAPANESE BONDS IS APPARENTLY CONTINUING IN
MARCH, RESULTING IN STRONGER PRESSURES TO LIMIT CAPITAL
INFLOWS.

6. CUSTOMS CLEARANCE TRADE DATA FOR FEB SHOW EXPORTS
ROSE 6.1 PERCENT (S.A.) WHILE IMPORTS WERE UP 0.6 PCT (IN
DOLLAR TERMS). STRONG AUTO EXPORTS CONTRIBUTED TO THE

FEB PERFORMANCE. EXPORTS TO THE U.S. ACCOUNTED FOR 25 PERCENT OF TOTAL FEB EXPORTS VS. 20 PERCENT A YEAR EARLIER (TOKYO 4114).

7. ECONOMIC PLANNING AGENCY (EPA) IN ITS MONTHLY UNCLASSIFIED

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REPORT RELEASED MARCH 10 HIGHLIGHTED THAT PRIVATE PLANT AND EQUIPMENT INVESTMENT FINALLY BEGAN TO SHOW SIGNS OF RECOVERY, THOUGH AT PRESENT PRIMARILY IN THE NON-MANUFACTURING SECTOR. NEW MACHINERY ORDERS, A LEADING INDICATOR FOR PRIVATE CAPITAL SPENDING, RECORDED DOUBLE DIGIT MONTHLY ADVANCE IN JAN FOR THE FIRST TIME IN TWO YEARS, WHILE PRIVATE CONSTRUCTION ORDERS HAVE NOW RECOVERED TO 92 PERCENT OF THE PEAK LEVEL RECORDED BEFORE THE OIL CRISIS. AS A RESULT OF THE SMOOTH EXECUTION OF THE SUPPLEMENTARY BUDGETS, PRODUCTION AND SHIPMENTS INDICES ROSE FOR THE THIRD CONSECUTIVE MONTH IN JAN, AND INVENTORY ADJUSTMENT HAS BEEN PROGRESSING. EPA REPORT, HOWEVER, ADDED THAT THE EMPLOYMENT SITUATION HAS SHOWN NO SIGN OF IMPROVEMENT, WHILE PRIVATE CONSUMER SPENDING REMAINED WEAK, AS INDICATED BY WEAK SALES PERFORMANCE OF DEPARTMENT AND RETAIL STORES. EPA REPORT ALSO EXPRESSES STRONG CONCERN OVER THE ADVERSE IMPACT ON ECONOMIC RECOVERY OF THE RECENT SHARP YEN APPRECIATION. THE BANK OF JAPAN, IN ITS MONTHLY REPORT RELEASED ALSO ON MARCH 10, ECHOED THE EPA REPORT, THOUGH WITH A SLIGHTLY LESS OPTIMISTIC TONE. A RECENT BOJ SURVEY PREDICTED STRONG RECOVERY FOR PRIVATE PLANT AND EQUIPMENT INVESTMENT DURING JFY 1978 (UP ABOUT 10 PERCENT), BUT THE BOJ REMAINED CAUTIOUS, NOTING THAT THE ELECTRIC POWER INDUSTRY WEIGHS HEAVY IN ITS SURVEY.

8. NEW MACHINERY ORDERS, S.A., CONTINUED TO RISE STRONGLY IN JAN. ORDERS PLACED BY GOVT AND PUBLIC AGENCIES WERE UP 23.7 PERCENT ON TOP OF THE 44.4 PERCENT ADVANCE LAST DEC. THE INCREASE IN PRIVATE NEW MACHINERY ORDERS ACCELERATED FROM 3.5 PERCENT IN DEC TO 5.9 PERCENT IN JAN. THE RECENT SOUND RECOVERY OF PRIVATE NEW MACHINERY ORDERS WAS ATTRIBUTABLE BOTH TO MANUFACTURING AND NON-MANUFACTURING UNCLASSIFIED

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INDUSTRIES. MACHINERY ORDERS PLACED BY THE ELECTRIC POWER INDUSTRY, THE PRIMARY SUPPORT FOR NEW ORDERS DURING LATE 1977, DROPPED RAPIDLY IN JAN. EXCLUDING SHIPS AND THE ELECTRIC POWER INDUSTRY, JAN NEW PRIVATE

MACHINERY ORDERS INCREASED BY AN EVEN STRONGER 14 PERCENT.

NEW MACHINERY ORDERS, S.A.

(IN BIL YEN; PCT CHANGE FROM PRIOR PERIOD IN PAREN)

- PRIVATE ORDERS GOVT AND PUBLIC
- EXCL. SHIPS ORDERS (JEI 335)
- (JEI 337)

RECENT MONTHS:

1977: NOV	232.8 (-2.5)	71.7 (-36.7)
- DEC	240.8 (3.5)	103.6 (44.4)
1978: JAN	255.0 (5.9)	128.2 (23.7)

RECENT QUARTERS (MONTHLY AVERAGE):

APR-JUNE	250.7 (-4.5)	96.2 (14.7)
JUL-SEP	233.7 (-6.8)	113.8 (18.3)
OCT-DEC	237.5 (1.6)	96.2 (-15.4)

NOTE: AS IS CUSTOMARY AT THE BEGINNING OF THE NEW YEAR, SEASONAL ADJUSTMENT FACTORS HAVE BEEN REVISED FOR ALL MONTHS OF 1977. DATE ABOVE ARE ALL ON THE NEWLY REVISED BASIS.

9. BANKRUPTCIES, N.S.A., ROSE IN FEB OVER THE PRIOR MONTH'S LEVEL BOTH IN TERMS OF THE NUMBER OF CASES AND THE VALUE OF LIABILITIES INVOLVED. THE FEB REBOUND IN BANKRUPTCIES, HOWEVER, APPEARED TO REFLECT IN PART A SEASONAL UPSWING AND WAS HEAVILY INFLUENCED BY FAILURE

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DURING THE MONTH OF EIDAI CO, WHICH REPRESENTED JAPAN'S SECOND LARGEST BUSINESS BANKRUPTCY SINCE WORLD WAR II. THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS PLACED BANKRUPTCY CASES IN FEB AT 1,211-1,212, N.S.A., UP 6 PERCENT OVER PRIOR MONTH'S LEVEL. HOWEVER, THE NUMBER OF CASES IN FEB DROPPED BELOW THE YEAR-EARLIER LEVEL BY 11 PERCENT, RECORDING THE THIRD STRAIGHT MONTH OF YEAR-OVER-YEAR DECLINE. THE LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCIES NEVERTHELESS EXPANDED RAPIDLY IN FEB TO \$2 BIL EQUIVALENT, NEARLY THREE TIMES AS LARGE AS IN THE PRIOR MONTH. THE EIDAI GROUP ALONE (INCLUDING AFFILIATES AND SUBCONTRACTORS) REPRESENTED ABOUT 40 PERCENT OF THE LIABILITIIS DECLARED DURING FEB.

10. WHOLESALE PRICES ROSE 0.1 PERCENT (N.S.A.) IN FEB BRINGING THE INDEX TO 105.7.

11. ANNUAL GNP FIGURES SHOW GNP IN CONSTANT PRICES UNCLASSIFIED

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INCREASED 5.1 PERCENT IN CY 1977 AFTER A 6.0 PERCENT GAIN IN CY 76. THE STRONG INCREASE IN NET EXPORTS LAST YEAR, LARGELY CONCENTRATED IN THE FIRST QUARTER, ACCOUNTED FOR 30 PERCENT OF THE GROWTH. THE GNP FIGURES RECORD REAL EXPORTS INCREASING BY 10.4 PERCENT WHILE REAL IMPORTS ROSE 2.0 PERCENT. GOVT CAPITAL INVESTMENT, WHICH WAS UP 10.2 PERCENT IN THE YEAR, ACCOUNTED FOR ANOTHER 18 PERCENT OF THE YEAR'S GROWTH. PRIVATE CONSUMPTION ROSE A RELATIVELY SLOW 3.3 PERCENT DURING THE YEAR. INVENTORIES WERE UP 8.4 PERCENT FROM A LOW 1976 BASE WITH THE RESULT THAT FINAL DOMESTIC DEMAND GROWTH WAS SLIGHTLY LESS THAN GROWTH IN TOTAL DOMESTIC DEMAND. FOLLOWING TABLE SHOWS ANNUAL DATE ON GNP AND OTHER NATIONAL EXPENDITURE ACCOUNTS FOR 1977 IN BIL OF YEN. PERCENT CHANGE FROM PRIOR YEAR SHOWN IN PAREN BELOW EACH VALUE.

- AT CURRENT PRICES AT 1970 PRICES

PRIVATE CONSUMPTION	103,866.6	53,472.4
-	(11.1)	(3.3)
PVT HOUSING INVESTMENT	12,763.5	6,718.9
-	(5.3)	(-0.2)
PVT PLANT AND EQUIPMENT	23,574.3	15,323.2
INVESTMENT	(6.7)	(2.9)
CHANGE IN PVT INVENTORIES	3,084.6	1,803.0

-	(L2.2)	(8.4)	
GOVT CONSUMPTION		20,183.4	8,661.1
-	(12.5)	(3.6)	
GOVT FIXED CAPITAL		16,764.1	9,921.4
FORMATION	(15.4)	(10.2)	
CHANGE IN GOVT		386.0	178.9
INVENTORIES	(12.0)	(18.5)	
NET EXPORTS		2,977.7	6,396.0
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(GOODS AND SERVICES)	(152.7)	(30.4)
(EXPORTS)	25,551.9	18,187.5
-	(7.2)	(10.4)
(IMPORTS)	22,574.2	11,791.5
-	(-0.4)	(2.0)
GNP	183,600.2	102,474.7
-	(11.7)	(5.1)

CHANGES IN SELECTED NATIONAL ACCOUNTS AGGREGATES FOR 1976
AND 1977.

-	1976	1977
REAL GNP	6.0	5.1
REAL FINAL DOMESTIC DEMAND	4.1	3.7
REAL DOMESTIC DEMAND	4.5	3.8
GNP DEFLATOR	6.5	6.3
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